ROMAN CORPORATION LIMITED

Annual Report 1976

OFFICERS

Stephen B. Roman, LL.D.
Chairman of the Board

Vincent L. Chapin
President

John S. Grant, Q.C.
Vice-President

John C. Puhky
Secretary

Frederick G. Roman
Treasurer

DIRECTORS

Vincent L. Chapin
John H. Coleman
John S. Grant
George B. Heenan
John Kostuik
Charles D. Parmelee
Joseph A. Patrick
W. Earl Riddolls
Helen Roman-Barber
Stephen B. Roman
Russell A. Rule

HEAD OFFICE

Suite 3900, South Tower,
Royal Bank Plaza
P.O. Box 40
Toronto, Ontario
M5J 2K2

AUDITORS

Coopers & Lybrand
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

REGISTRAR & TRANSFER AGENT

Guaranty Trust Company of Canada
Toronto, Ontario

DIVISION OFFICE AND MILL

Strathcona Paper Company
Box 130
Napanee, Ontario

President — W. Earl Riddolls

Vice-Presidents:
- Operations — Lloyd G. Finlay
- Engineering — Warren W. Finlay
- Sales & Administration — William J. Finlay
- Production — Hugh C. Finlay

Comptroller — Jim Loudon

REPORT TO SHAREHOLDERS:

Stephen B. Roman

Although less successful than last year's extraordinary performance of $2.96 per share, the results for 1976 at $1.57 per share were the second best in the Company's history. With respect to our longer term growth progression, the 1976 figure should also be compared with the results achieved in 1974 when earnings were 84¢ per share.

Financial

Net earnings for the year were $4,102,924 or $1.57 per share compared to $7,728,275 or $2.96 per share in 1975. Lower earnings by Denison Mines Limited, of which your Company is the major shareholder, accounted for most of our reported decline. Denison's scheduled uranium deliveries were lower in 1976 than in 1975 and production costs in a number of areas were higher, particularly with respect to labour and materials, implementation of environmental regulations and increased exploration activities. Notwithstanding Denison's decline in earnings — its first in five years — the 1976 results were nonetheless the third highest in that company's history. During 1976, your Company benefited fully from the new dividend rate of 50¢ per share, established by Denison in the second quarter of 1975.

The results of the Strathcona Paper Division, although down marginally from last year, were satisfactory considering the general decline in the Canadian boxboard industry.

Investment

In the view of management, no sector of industrial activity has a greater growth potential than the production of energy resource materials (uranium, coal and oil). Accordingly, the thrust of our investment activity in 1976 was centered in this area. We invested $5,359,697 in the acquisition of an additional 87,350 shares of Denison Mines, bringing our total holdings of these shares at year end to 1,312,900. Your Company's equity interest in Denison now stands at 28.7%.

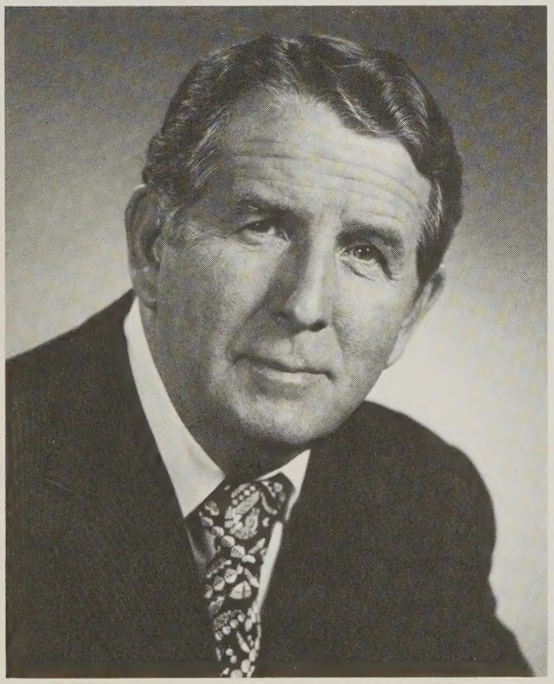
In 1976 Denison continued to demonstrate its status as a world renowned energy resource corporation. Substantial progress was made in expanding the facilities for uranium production to meet anticipated growth in domestic and international demand. With regard to the former, Ontario Hydro has announced its intention to purchase significant quantities of uranium oxide from Denison under a long term contract and it is anticipated that formal agreement between the parties will be reached in the near future. International demand is solidly supported by long term contracts with Japan and Spain.While it is recognized that deliveries under these contracts may be temporarily frustrated because of the international safeguards issue, there is every indication that the problem will be successfully resolved through intergovernmental cooperation.

In the oil and gas sector, Denison acquired several international locations from Oceanic Exploration Company. Included in this acquisition was a 68.75% interest in exploration licences in the North Aegean Sea, off-shore Greece which included an oil and gas discovery, known as the Prinos field. Drilling and testing in this area have thus far been most encouraging. Off-shore Spain discovery hole (Casablanca #1) is now undergoing production testing to determine the commercial potential of this field.

In coal, important advances have been made in the joint venture developments of Denison's major holdings of metallurgical coal deposits in British Columbia. Specifically, in August 1976 Denison received a letter of intent from the Japanese steel industry to negotiate the purchase of 5,000,000 tons of metallurgical coal per year from the Quintette deposit. Imperial Oil has recently agreed in principle to purchase a 16.75% interest in Quintette. Exploration and preliminary feasibility studies on the Saxon property have been completed and the Ruhrkohle Group, Germany has purchased a 15% interest with an option to purchase a total of 50%, in this coal project.

Operations — Strathcona Paper Company

Strathcona, a division of your company had a relatively good year. Demand for product was strong in the first part of the year when the Division remained strike-free in an industry largely strike-bound. However, with the return to industrial peace and more normal marketing conditions, demand for product from our Division fell off sharply in the last months of the year. Advantage was taken of the period of slack demand to initiate major capital installations to improve productivity in the plant. These amounted to $935,000 in 1976 and the work will continue into 1977. Current forecasts for 1977 estimate the boxboard industry will operate at 70% capacity. Although the division will experience higher labour and material costs, your management is confident that results for 1977 will equal those of 1976.



Vincent L. Chapin

Outlook

While growth and diversification continue as major objectives of your Company, quality of investment remains the essential criterion. It was in this context that Denison was selected for investment in 1976 over various alternatives. Nonetheless, considerable investigation was undertaken during the year regarding other investment opportunities. This work is continuing and announcements will be made in the event of positive developments.

We would like to take this opportunity to thank our shareholders, employees and customers for their support during the past fiscal year.

On Behalf of the Board of Directors,

STEPHEN B. ROMAN
Chairman of the Board

VINCENT L. CHAPIN
President

Toronto, Ontario
April 27, 1977

ROMAN CORPORATION
LIMITED

BALANCE SHEE[T]

ASSETS

	1976 $	1975 $
CURRENT ASSETS		
Cash	—	324,482
Marketable securities (note 1)	149,283	154,832
Accounts receivable	811,740	1,194,228
Inventories (note 1)	513,088	629,302
Prepaid expenses	31,584	28,032
	1,505,695	2,330,876
SHARES IN OTHER COMPANIES HELD FOR INVESTMENT (note 2)	38,284,795	31,918,668
FIXED ASSETS		
Land — at cost	96,784	94,916
Plant, buildings and equipment — at cost, less accumulated depreciation of $1,085,284 (1975 — $767,471)	5,104,723	4,484,907
	5,201,507	4,579,823
OTHER ASSETS	228,191	167,539
	45,220,188	38,996,906

AUDITORS' REPORT T

We have examined the balance sheet of Roman Corporation Limited as at Decer
position for the year then ended. Our examination was made in accordance with genera
we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of t
financial position for the year then ended in accordance with generally accepted accoun

Toronto, Ontario
February 10, 1977

LIABILITIES

	1976 $	1975 $
CURRENT LIABILITIES		
Bank overdraft	108,767	—
Bank demand loans (note 3)	12,807,500	10,658,500
Accounts payable and accrued liabilities	927,976	1,065,385
	13,844,243	11,723,885

SHAREHOLDERS' EQUITY

	1976 $	1975 $
CAPITAL STOCK		
Authorized — 5,000,000 shares without par value		
Issued — 2,613,000 shares	3,806,777	3,806,777
CONTRIBUTED SURPLUS	280,598	280,598
RETAINED EARNINGS	27,288,570	23,185,646
	31,375,945	27,273,021
	45,220,188	38,996,906

SIGNED ON BEHALF OF THE BOARD

JOHN H. COLEMAN, Director

VINCENT L. CHAPIN, Director

THE SHAREHOLDERS

1, 1976 and the statements of earnings and retained earnings and changes in financial
epted auditing standards, and accordingly included such tests and other procedures as

mpany as at December 31, 1976 and the results of its operations and the changes in its
rinciples applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

STATEMENT OF EARNINGS AND RETAINED EARNINGS
For the Year Ended December 31, 1976

	1976 $	1975 $
REVENUE		
Sales	12,302,959	10,718,635
Share of income determined by the equity method	3,670,102	6,562,691
Other interest and dividends	37,287	35,899
Loss from security transactions	(46,994)	(17,027)
Services and rental income	225,759	222,539
	16,189,113	17,522,737
EXPENSES		
Cost of operations exclusive of the following items	9,060,781	6,998,049
Selling, general and administrative expenses	1,433,344	1,302,940
Interest	1,269,240	1,180,643
Depreciation	322,824	312,830
	12,086,189	9,794,462
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	4,102,924	7,728,275
PROVISION FOR INCOME TAXES	237,000	585,000
EARNINGS BEFORE EXTRAORDINARY ITEM	3,865,924	7,143,275
EXTRAORDINARY ITEM		
Recovery of income taxes resulting from the loss carry forward of prior years	237,000	585,000
NET EARNINGS FOR THE YEAR	4,102,924	7,728,275
RETAINED EARNINGS — BEGINNING OF YEAR	23,185,646	15,457,371
RETAINED EARNINGS — END OF YEAR	27,288,570	23,185,646
EARNINGS PER SHARE FOR THE YEAR BEFORE EXTRAORDINARY ITEM	$1.48	$2.73
EARNINGS PER SHARE FOR THE YEAR	$1.57	$2.96

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1976

	1976 $	1975 $
SOURCES OF WORKING CAPITAL		
Current operations —		
Earnings before extraordinary item	3,865,924	7,143,275
Items not affecting working capital in the year —		
Depreciation	322,824	312,830
Share of income determined by the equity method, less dividends received	(1,106,429)	(4,295,425)
Provision for decline in value of investments	100,000	—
Total from current operations	3,182,319	3,160,680
Recovery of income taxes resulting from the loss carry forward of prior years	237,000	585,000
	3,419,319	3,745,680
USES OF WORKING CAPITAL		
Purchase of shares for investment	5,359,697	9,300
Additions to fixed assets	944,508	61,149
Other assets	60,653	26,480
	6,364,858	96,929
DECREASE (INCREASE) IN WORKING CAPITAL	2,945,539	(3,648,751)
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	9,393,009	13,041,760
WORKING CAPITAL DEFICIENCY — END OF YEAR	12,338,548	9,393,009

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1976

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation

(i) The company follows the equity method of accounting for its investment in Denison Mines Limited and two other companies, one of which is a mining company. Under this method the company includes in its reported earnings its share of net earnings of these companies for the year.

(ii) Exploration expenditures made in the year are written off to expenses.

(iii) The excess cost of the company's investment over its equity in the net assets of the three companies referred to above at the dates of acquisition is considered to be applicable to the mining properties of these companies and is being amortized over twenty-five years, primarily on the basis of production. The unamortized excess at December 31, 1976 amounted to $9,976,393. The amortization charge for the year was $571,294 (1975 — $428,294) and has been deducted in calculating the share of income determined by the equity method.

(b) Marketable securities

Marketable securities are carried at their quoted market value but not in excess of cost.

(c) Inventories

Finished goods are valued at the lower of cost and net realizable value less normal profit margin. Raw materials and supplies are valued at the lower of cost and replacement cost.

(d) Fixed assets

Fixed assets are carried at cost.

Depreciation charges are calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

Buildings and structures	4%
Plant and equipment	7%-10%
Vehicles	33⅓%

2. SHARES IN OTHER COMPANIES HELD FOR INVESTMENT

This item comprises:	1976 $	1975 $
Shares in companies accounted for by the equity method (quoted market value $81,527,624; 1975 — $69,938,000)	38,036,294	31,570,167
Shares and debentures in other companies, at or below cost (quoted market value of listed securities $303,902; 1975 — $302,400)	248,501	348,501
	38,284,795	31,918,668

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. BANK DEMAND LOANS

The bank demand loans are secured by substantially all the shares in other companies held for investment and by the marketable securities.

4. INCOME TAXES

The company anticipates that losses available for tax purposes in the following approximate amounts will be applied to reduce income taxes which would otherwise be payable in future years until:

	$
June 30, 1979	75,000
June 30, 1980	384,000
	459,000

5. STATUTORY INFORMATION

Directors and senior officers, as defined in The Business Corporations Act of Ontario, received direct remuneration in 1976 of $291,041 (1975 — $447,546).

6. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the presentation of these financial statements.

Printed in Cana

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INTERIM REPORT

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ROMAN CORPORATION LIMITED

SIX MONTHS ENDED JUNE 30, 1976

ROMAN CORPORATION LIMITED

4 King Street West, Toronto, Ontario

To our Shareholders:

Net earnings for the six months ended June 30, 1976 were \$3,072,000 or \$1.17 per share compared with restated results for the comparable period in 1975 of \$4,420,000 or \$1.69 per share.

Earnings for the first six months of 1975 have been restated to take into account the Corporation's increased investment income resulting from a restated higher level of earnings in the period by Denison Mines Limited of which Roman Corporation is the major shareholder (28.2%). Denison's higher income in 1975 reflected the adjustment of prices under uranium supply contracts with Japan and Spain. In the current period Denison revenue from uranium operations was lower because no deliveries were scheduled under the company's long term contract with Spain. A delivery of one million pounds is however scheduled under that contract later this year.

Investments:

In the current period the Corporation purchased an additional 61,200 shares of Denison Mines Limited for an aggregate value of \$3,700,000. This brings to 1,286,750 the number of Denison shares held by your Corporation. The present ratio between the number of Denison shares owned to the number of Roman shares issued is approaching 1:2.

The soundness of Denison as an investment outlet for corporate funds continues to rest mainly on the long term strength of demand, international and domestic, which Denison enjoys for its uranium production. There are however, a number of other favourable factors. These include, during the first six months of 1976: continued successful oil exploration in the Spanish Mediterranean, the British North Sea, U.S.A. and Canada and; the recent agreement in principle with Oceanic Exploration Company of Denver to purchase its 68¾% interest in the oil and gas exploration licences in the North Aegean Sea off the coast of Greece. The arrangement would also result in Denison obtaining partial interest in oil exploration licences held by Oceanic in the Cameroons, Nicaragua and the British North Sea. In addition, important progress has been reported in the development of Denison's

coal properties in British Columbia in conjunction with Japanese, German and French interests.

Operations:

Strathcona Paper Company remained strike-free during the period while much of the industry was strike-bound. This coupled with a customer inventory build-up in the second quarter resulted in steady production and marketing and a moderate improvement in the level of net earnings for the first six months. Although the industry faces the prospect of slackening demand in the second half, management expects, through good marketing and production, to achieve a satisfactory level of earnings for the year.

Outlook:

To achieve an increase in the level of the corporate operating income continues as a major objective. In this connection studies continue regarding suitable acquisitions.

We wish to thank our shareholders and employees for their continued support and interest in the progress of the Company.

On behalf of the Board of Directors

Stephen B. Roman,
Chairman of the Board

Vincent L. Chapin,
President

Toronto, Ontario,
August 23, 1976.

ROMAN CORPORATION LIMITED

INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 1976

SUMMARY OF EARNINGS	1976 $	1975 $
Gross Income:		
Sales — Strathcona Paper Company Division	6,651,000	4,597,000
Investment and other income	2,560,000	4,219,000
	9,211,000	8,816,000
Earnings before income taxes and extraordinary item	3,072,000	4,420,000
Income taxes	334,000	140,000
Earnings before extraordinary item	2,738,000	4,280,000
Recovery of income taxes resulting from the carry-forward of tax losses from prior year	334,000	140,000
Net earnings for the period	3,072,000	4,420,000
Per Share Information:		
Earnings before extraordinary item	$1.04	$1.64
Net earnings for the period	$1.17	$1.69

STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Working Capital

Current Operations		
Net earnings for the period	3,072,000	4,420,000
Items not affecting working capital in the period —		
Depreciation	158,000	145,000
Share of income determined by the equity method, less dividends received	(1,175,000)	(3,055,000)
	2,055,000	1,510,000

Use of Working Capital

Investment in other companies	3,703,000	9,000
Additions to fixed assets	293,000	35,000
Other assets	49,000	7,000
	4,045,000	51,000
INCREASE (DECREASE) in WORKING CAPITAL	(1,990,000)	1,459,000

The comparative results for the period ended June 30, 1975, have been amended giving effect to the restatement of the earnings of Denison Mines Limited to reflect retroactive price and other adjustments made by that Company in the last quarter of 1975.

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